Duty to Serve Rulemaking
Proposed Rule (80 Federal Register 79182 (Dec. 18, 2015))

Roundtable Between the Federal Housing Finance Agency (FHFA) and Financial Services Stakeholders
April 25, 2016
Constitution Center, 400 7th St., S.W., Washington, D.C.
12:30 p.m. – 2:30 p.m. Eastern Standard Time

Attendees (in-person):

FHFA staff: Janell Byrd-Chichester, Matt Douglas, Jim Gray, Nina Griffith, Carrie Johnson, Sharon Like, Alfred Pollard, Mike Price, David Sanchez, Eric Stein, and Danielle Walton

Laura Arce (American Bankers Association)
Charlie Dawson (National Association of Realtors)
John Farmakides (Navy Federal Credit Union)
Becky Froass (National Association of Home Builders)
Ramon Gomez (Financial Services Roundtable)
Lindsey Johnson (US Mortgage Insurers)
Michelle Kitchen (National Association of Home Builders)
Eric Klopfer (US Mortgage Insurers)
Paul Leonard (Financial Services Roundtable)
Jim MacLeod (Mortgage Bankers Association)
Dan McPheeters (Mortgage Bankers Association)
Joseph Pigg (American Bankers Association)
Andrew T. Price (Credit Union National Association)
Jerry Reed (Credit Union National Association)
Kavitha Subramanian (Navy Federal Credit Union)
Joe Ventrone (National Association of Realtors)

Summary: On April 25, 2016, FHFA staff identified above met with the above-referenced financial services stakeholders representing varied financial services industry interests, in connection with FHFA's 2015 Duty to Serve (DTS) proposed rule. The purpose of this meeting was to provide the stakeholder attendees, who had previously submitted written public comments to FHFA on the DTS proposed rule, with an opportunity to discuss those comments, express their views on the comment letters submitted by others, or provide views on clarifying questions from FHFA regarding the comments. The following is a summary of the attendees' discussions at the meeting and reflects solely the views of the attendees as captured by FHFA staff. The term "Enterprise" refers to Fannie Mae or Freddie Mac.

Gaps in underserved market segments

Attendees discussed views on existing gaps in certain underserved market segments and the ability to develop Enterprise loan products in those market segments.

One attendee stated that some mortgage insurers do not favor mortgage insurance premium reductions as a strategy to reach underserved markets.

Some attendees said that the Enterprises should cap pricing as a way of reaching underserved markets. They indicated that pricing is fundamental, but that there is also a need to review other available options to mitigate risk, such as homebuyer counseling and lower down payment requirements, that will enable more households to qualify for mortgage loans and remain in their homes. They noted that risks need to be evaluated holistically, and that pricing is a large component. They indicated that smaller lenders need to address risk tolerances but also need flexibility to structure programs to keep prices low in order to provide access to prospective homebuyers. It was noted that interest rate buy-downs with shorter amortization periods could be used effectively.

One attendee favored equalizing the Enterprises' guarantee fees (G-fees) among larger and smaller loan aggregators. The attendee stated that loan level price adjustments were actually a bigger impediment than G-fees, and that the adjustments were hurting its members, as well as penalizing the public for the financial crisis. Another attendee agreed that the adjustments had a negative effect.

Several attendees suggested that rather than the Enterprises conceiving of pilot products on their own without outside input, they should solicit ideas for pilots from their customers and solicit participation in the pilots. The suggestion was also made that in order to obtain more information, different pilot products could be conducted simultaneously in multiple locations, or the same pilot product could be conducted simultaneously in two different areas, such as in a rural area and an urban area. One attendee expressed concern that the Enterprises would conduct pilots predominantly with large lenders, stating that smaller lenders cannot compete with large lenders. Another attendee recommended that the Enterprises conduct an acquisition, development and construction pilot for the affordable housing preservation market. One attendee suggested Enterprise joint pilots with lenders and advocates.

Some attendees stated that the Enterprises could take a larger role in bringing options together, for example, city and county mortgage assistance programs, which they said are vitally important to people living in underserved areas.

Some attendees recommended that the Enterprises' underwriting guidelines take into account demographic changes, and be transparent so that they are understood in the same way.

One attendee stated that while Enterprise shared equity programs would be worthwhile, they would not be scalable in the near future. The attendee suggested that the Enterprises support neighborhood stabilization efforts.

Attracting new sources of capital to affordable housing

Attendees discussed views on attracting new sources of capital to affordable housing. Some attendees stated that risk sharing, including upfront risk sharing, and transparency are needed.

One attendee opined that risk sharing in a pilot would be difficult. They said that there is a diverse investment base looking for credit exposure if the Enterprises can create a safe and sound product. They noted that industry stakeholders benefit when there is diversity in the market.

Some attendees stated that the Enterprises' Common Securitization Platform (CSP) will be key to attracting new capital. They said that smaller institutions will need access to the CSP without limitations. They recommended that the CSP not disclose pricing, but that other information on transactions should be transparent in order to assist the markets. They indicated that lenders need a feedback mechanism on particular Enterprise products, for example, on what factors drive performance. They stated that publicly available data will breed interest and competition, and that with data, lenders can inform investors.

Some attendees stated that research by the Enterprises in developing DTS products is critical and should be incented. They indicated that flexibility is needed for research, pilots, innovation and partnering with lenders to see what the needs are. Some attendees said that all stakeholders can learn from DTS products, and the information obtained should be shared with the industry. Several attendees said that new options for underwriting are needed, stating that the Enterprises' guides do not reflect changes in lifestyles and employment, such as employment fields where traditional methods for verifying employment are not effective.

One attendee said that 60 percent of mortgage lending business is done on a correspondent basis, but that the Enterprises are uncomfortable with third party-originated business. The attendee indicated that if there is open sharing of data and a willingness to solve problems, a correspondent lending pilot would be taken seriously. It was also noted that loan loss severity data is lacking.

Conservatorship Scorecard

One attendee recommended that real estate-owned (REO) disposition strategies for affordable housing preservation be included in the Enterprises' Conservatorship Scorecard. Another attendee recommended that there be a DTS Scorecard with requirements for goals and Enterprise progress reports.

Enterprise partnering with the financial services industry to develop products that reflect new lifestyle preferences and demographic changes

Attendees discussed views on the Enterprises partnering with the financial services industry to develop DTS products that reflect new lifestyle preferences and demographic changes.

Attendees stated that more support for small multifamily property owners is needed to preserve affordable housing.

Attendees noted that saving for a down payment is a large barrier to affordable housing, especially for first-time homebuyers. They recommended that the Enterprises partner with state and local programs to develop products with consistent rules that would help with down payments and increase the scale of these programs. They also suggested that the Enterprises partner with local researchers who understand the local markets well in order to develop creative solutions.

Most attendees stated that smaller entities need access to data which they could use to work with local finance agencies and bond funding to expand liquidity. Attendees indicated that there could be standardization, but customization would be needed to reflect local differences. They noted that transparent and understandable guidelines are needed to address local differences.

Attendees recommended that Enterprise automated underwriting systems be expanded to include unique features and more variables by modeling the large amount of data that the Enterprises possess. They noted that as a result of Dodd-Frank legislative requirements, the Enterprises receive more data from loan sellers. They indicated that different types of automated underwriting system approvals are needed, e.g., that certain products are approvable in certain geographic areas.

LIHTC investments

Several attendees recommended that the Enterprises be permitted to re-enter the Low-Income Housing Tax Credit (LIHTC) market because underserved markets could benefit from their LIHTC participation, especially those areas where LIHTCs are not working well. A larger group of attendees stated that the Enterprises should not be authorized to invest in LIHTCs or be given DTS credit for such investments.

Manufactured housing units

Attendees discussed views on whether the Enterprises should support chattel-titled manufactured homes and the role mortgage insurers would play. An attendee said that state insurance regulators do not permit mortgage insurance companies to insure chattel. Another attendee opposed providing DTS credit for Enterprise support of chattel financing.

Most attendees agreed that the manufactured housing market is underserved. They stated that the need to create liquidity in manufactured housing is enormous, and that there is a need to standardize underwriting and loan terms for manufactured housing.

Sellers and servicers certifying tenant pad lease protections in manufactured housing communities

Attendees discussed views on sellers and servicers certifying the existence of certain minimum tenant pad lease protections in manufactured housing communities. Lenders expressed concern that a covenant flaw, because a loan failed to have minimum tenant protections, could cause a loan to be declared in default, requiring the loan to be pulled from a mortgage-backed security and exposing the lender and the Enterprise to some safety and soundness risk.

There was greater acceptance of minimum tenant pad lease protections among attendees when it was clarified that, under the proposed DTS rule, certification would only be required at the time of sale of the loan to an Enterprise. It was further clarified by FHFA that no ongoing monitoring of the tenant lease protections would be required and that non-compliance with the tenant protections by the manufactured housing community owner would not be grounds for the Enterprises to deem the owner in default on the mortgage. Some attendees noted that this would be similar to a condominium certification. Because of the operational burden, some lenders remained unenthusiastic about certification even after the limits of certification were clarified.

Proposed DTS Underserved Markets Plans and evaluations

Attendees discussed views on Enterprise Underserved Markets Plans (Plans), FHFA evaluation and scoring of Enterprise performance under their Plans, and possible alternative approaches. All of the attendees supported allowing public input on the Plans as important.

Several attendees indicated that by getting approval for a product that identifies the local needs of the market, people will gravitate to the product because it would not be a goal or quota. One attendee suggested that the Enterprises mentor minority lenders and conduct financial education in schools. Another attendee disagreed, stating that it is new loan products rather than more education that will result in more loan applicants. Several attendees said that standardization and scalability are objectives that should be included in the Plans.

All of the attendees stated that the Plans should be transparent. They recommended releasing as much data as possible about classes of borrowers and the attributes that contribute to better underwriting. They argued that transparency is needed in product offerings and performance results data so that the industry can learn from the information and make better pricing decisions. Some attendees stated that the Enterprises may have legitimate proprietary interests in the data, but said that to develop helpful new loan products, certain information will have to be shared and lenders must have a reason to trust that the Enterprises are playing fairly. Attendees also said that there is healthy competition between the Enterprises which should be retained, but said it should ultimately be transparent. They said that the Enterprises should use innovation and creativity, which may not be as transparent.

Most attendees said that there is a need to confirm that the Enterprises' performance under their Plans resulted in increasing the size of and access to the underserved markets. They noted the potential for the Enterprises to serve the markets by taking business from existing government programs, and stated that the Enterprises should be truly adding liquidity to the markets rather than simply taking their share of liquidity on more advantageous terms. Some attendees stated that FHFA can make sure in its evaluations of the Enterprises' performance that they are actually making a difference in the underserved markets. Several attendees suggested that FHFA form an advisory group of industry and consumer representatives to vet ideas for Enterprise pilots.

Some attendees stated that it would be helpful for FHFA to describe the DTS market opportunities, i.e., "how large the box is" that needs to be addressed, rather than waiting for the Enterprises to assess market size, and indicate what percentage of the Enterprises' business will be devoted to DTS activities.

FHFA's role

Attendees stated that FHFA should provide oversight and clear representation and warranty rules that are understandable by everyone. They noted that industry stakeholders want to participate in Enterprise programs but want assurance that when they sell a loan to an Enterprise, they will not be required to repurchase it later. They recommended that greater clarity be provided to lenders on the Enterprises' underwriting rules and that assurance be provided to lenders that FHFA will be working with the Enterprises as they serve the underserved markets.